Unit – 3

Planning

(Lesson Structure)

3.0 Objective

The objective of this lesson is to convey to the students the meaning of planning in business. Students would learn various approaches to planning and need for planning. This lesson envisages to enlighten the students about different types of plans which can be embarked upon under varying circumstances.

3.1 Introduction

Peter F. Drucker has proposed two criteria to judge manager's performance viz., effectiveness — the ability to do the right things and efficiency — the ability to do the things right. These two criteria are parallel to two aspects of planning viz. setting the right goals and choosing the rights means for achieving these goals.

Planning is a primary function of corporate management. It is a bridge between the present and the future. It gives managers some purpose, objectives, programme and direction towards the goals. Further it helps in the process of motivation and provides a framework for decision-making. It also provides standards for control of performance of overall corporations. First, we discuss the meaning before we study the process of planning.

3.1 Definitions

According to Harold Koontz and O' Donnell, planning is deciding in advance what is to be done in future. Plan the gap between where we are and where we want to go.

Alfred and Beatly defined the term planning as "the thinking process, the organized foresight, the vision based on fact and experience that is required for intelligent action."

Stoner and Freeman defined planning as "the process of establishing goals and suitable action for achieving these goals."

Planning is selecting information and making assumptions regarding the future to formulate activities necessary to achieve organisational goals. It is composed of numerous decisions oriented to the future. Planning is deciding in advance what is to be done. It involves the selection of objectives, policies, procedures and programmes from among alternative. Thus, planning is primarily concerned with looking into the future and involving the selection of the best alternative.

Forecasting Vs. Planning :

We generally tend to confuse forecasting with planning. Forecasts are predictions or estimates of the future changes. In other words, forecast is an attempt to probe the future inferences from known facts. Thus, forecast is estimating what will happen in future. But planning is deciding in advance what is to be done in future. For example, recall the Johnson and Johnson example. If any company decides to achieve certain amount of sales during certain period, it is called planning. The derivative plans include planning for attractive product design and substantially investing in more promotional programmes. Thus, planning is what is to be done in the future while forecasting is what will happen in the future. The implementation of planning needs extra effort. Planning is a wider aspect whereas forecasting has a narrow dimension ans so forecasting is a technique of planning.

It is clear to us that planning is broader and it is different from forecasting. Now, we study the need for planning.

3.1 Approaches to Planning

Planning decides the objectives, goals and course of action in advance and the method of implementing and achieving the plans. Planning aims at achieving the goals more economically and accurately. It is the basic management function. The nature of planning includes:

(i) **Primary Planning:** Planning is the primary and basic function among the management functions viz., planning, organising, staffing, directing and controlling. In fact, all other functions follow the function of planning. Managers first perform the planning function and then perform all other functions.

(ii) Contributes to Objectives: Organisational objectives specify the purpose for which the organisations are established. These objectives are converted into goals. Managers perform the planning function in order to achieve the goals and objectives. Thus planning contributes to the achievement of objectives.

(iii) Intellectual Activity: Planning includes forecasting the future environmental opportunities and threats. Further, it includes acquiring organisational strengths and eliminating weaknesses in order to match these strengths and environmental opportunities. It also includes strengthening the organisation to face the environmental challenges and threats.

Managers develop alternative courses, evaluate these alternatives and select the best course. Managers should have intellectual ability and multiple skills to perform planning effectively. Thus, planning is an intellectual activity.

(iv) Higher Efficiency: Efficiency is the ratio between input and output. Achieving more output with the same input and/ or reducing the input to achieve the same output is referred to as efficiency. Planning minimises the input and maximises output. Thus, planning maximises organisaitonal efficiency.

(v) Flexibility: Planning should proact and react to the environmental changes. Liberalisaiton, privatisation and globalisation make the external environmental more dynamic. This in turn results in high competitiveness and customer-centred production and marketing. In addition, customer tastes and preferences have been changing at a fast rate. All these factors made the business (BPRE). Planning function has acquired the character of flexibility in view of these developments.

(vi) Consistency: Managers at different levels formulate plans based on the internal and external environmental factors. Therefore, planning should be in consistence with the strengths of the firm and opportunities provided by the external environmental. Similarly, planning at the departmental level should be in consistence with the corporate level plans.

3.4 Need for Planning

The need for planning arises mostly due to the fact that modern organisations have to survive, operate and grow in hightly competitive market economies where change is the order of the day. The change may be either revolutionary (sudden) or evolutionary (slow). The different areas of change include: change in technology, change in population, change in taste preference of consumers, changes in income levels, structures and distribution, changes in competition and in economic structures and systems, changes in policies of home government or foreign government, chagnes in employee attitudes, behaviour etc. These changes create problems for the management through threats and challenges. Managers have to bear problems caused due to the changes and act upon the tactfully in order to avoid or reduce the effects of these problems on the survival, operation and growth of the organisation.

Efficient managers try to foresee the problems before they actually occur and prevent them. As pointed by Terry, successful mangers deal with foreseen problems and unsuccessful mangers struggle with unforeseen problems. The difference lie in planning. Managers have to foresee and make the future favourable to the organisation in order to achieve the goals effectively. They introduce action, overcome current problems, prevent future uncertainties, adjust the goals witht he unforeseen environmental conditions and exert all their resources to achieve their goals.

According to Megginson et al., "to have an organisation tha tlooks forward to the furture and tries to stay alvie and prosper in a chaning world, there must be active, vigorous, continuous and creative planning."

Primacy of Planning :

Planning is the foundation of the entire managemenet activity/process. Infact, planning provides the basis from which all functions of management arise. Planning preceds other functions like organising, directing, staffing and controlling. There would be nothing to organise, recruit and select, motivate and controal without planning. The idea of primacy of planning emphasises the fact the planning takes precedence over all other functions of mamangement.

Individuals and organisations may muddle along reacting to environmental changes without a clear idea of what they have to attain without a plan. Organisations and people associated with them enhance their motivation and get inspiration that helps to encounter the obstacles with proper planning.

Furter, it is said that managers cannot know how they should organise various resources — human, physical and financial — and purposes of such organisations. Managers cannot recruit, select, train people and lead them without a plan. Without a plan, controlling will be an exercise in futility. Thus, planning precedes all other management functions and activities.

Many times, we come across with several concepts of planning. In fact, we are confused due to the narrow difference among them. It would be appropirate, at this juncture to understand them clearly. They are nothing but types of plans. Now we shall study and understand them.

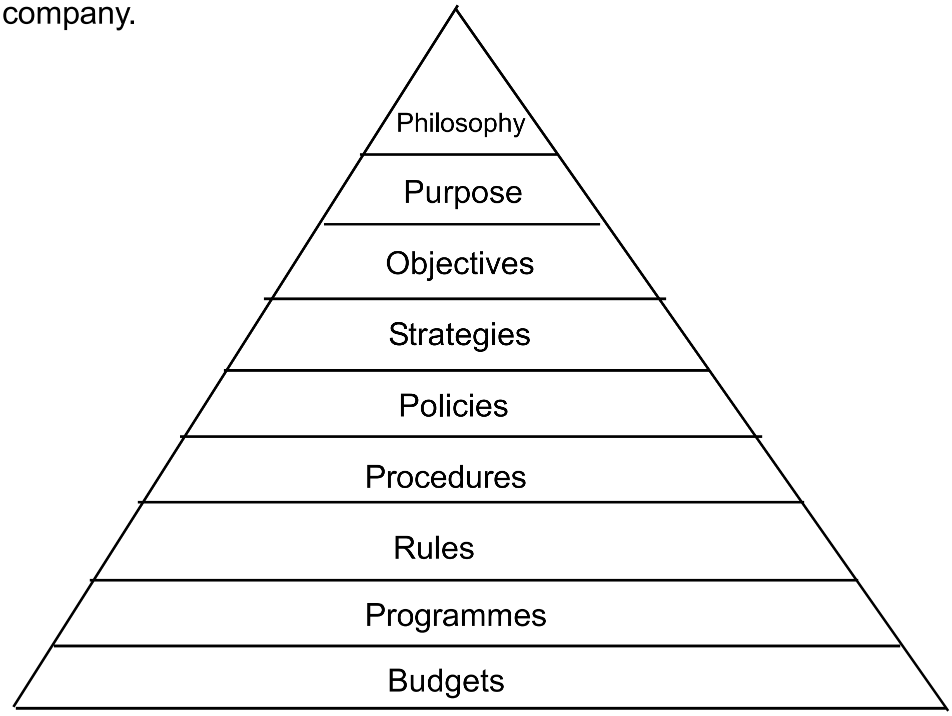
3.5 Types of Plans

Some authors treat the philosophy, purpose, objective, strategies, policies, procedures, rules, programmes and budgets as levels/hierarchy of plans while other authors including Harold Koontz et.al., deal as types of plans.

Types/Hierachy of plans includes philosophy, purpose, objectives, strategies, policies, procedures and rules, programmes and budget. Now we shall discuss each of these types of plans.

(i) Philosophy: Organisations are part of society. They exist because they perform an important function in the society. Many organisations define the role that they wish to play in society in terms of philosophy. The conern for an interest in philosophy of the top mangerment of an organisation has been steadily increasing since World War II. A philosophy is a system of thought.

A managerial philosophy that is commonly accepted is a requisite for a common scale satisfaciton, profit maximisation or contribution to the maximum extent for the socio of values in the country. Hence the philosophy of the company should have unity of thought and adopt in te accomplishment of economic objectives of a company. Philosophy is based on the needs problems of society and economy of the country. Thus, philosophy bridges the gap between society and the company.



The philosophy of Bank of Madhura Ltd. is: 'A vibrant bank committed to for example excellecne in performance through customer satisfaction.'

Oil and Natural Gas Commission (ONGC) states its philosophy as: "To stimulate, continue and accelerate efforts to develop and maximise the contribution of the energy sector to the economy of the country.

(ii) Purpose: Every kind of organised group activites or operations has a purpose. For example, the purpose of a bank is to accept deposits and grant loans and advances.

(iii) **Objectives:** Objectives are the ends towards which organisational activity is aimed. Organisational objectives represent not only the end point of planning but also the end towards organising, staffing, directing and controlling point. For example, the objective of the bank may be contribute to the socio-economic objectives of the country. Every department may have its own objectives which may not be completely the same as of the bak. For example, the objectives of the Advance Department may be to grant loans to socially and economically weaker sections of the community. This objective certainly contributes to the attainment of overall objectives of the Bank.

(iv) **Strategies:** Strategy is determination of the basic long–term objectives of an enterprise and the adoption of courses of action and allocation of resources necessary to achieve these goals. Thus, a bank has to state its long-term goal, say, maximisation of customer economic uplift of the country. Thus, the management has to finalise the course of action like deposit mobilisation, granting of loans etc. and allocate resources of all types like men, material machine and money to attain the goal.

(v) **Policies:** Policies are general statements or understandings which guide or direct thinking and action in decision-making. However, all policies are not statements.

(vi) **Procedures and Rules:** Procedures are plans that establish a desired method of handling future activities. They are guides to action rather than thinking. They detail the exact manner in which a certain activity must be accomplished. For example, the procedures of granting loans which include inviting application, scrutinising application, verifying facts, appraising projects, sanctioning loans, disbursing the loan amounts, supervising, following up end-use, recovering etc. Rules spell out specific required action or non-action allowing no discretion. For example, charging of 10 per cent rate of interest on housing loans.

(vii) **Programmes:** These are complexes of goals, policies, procedures, rules task assignment, steps to be taken, resources to be employed and other elements necessary to carry out a given course of action. They are ordinarily supported by necessary budgets of the organisation.

(viii) **Budget:** A budget is a statement of expected results in terms of members. It may be referred to as a numerical programme. Cash budget, sales budget, capital expenditure budget are some of the examples of budget.

Other Classification of Types of Plans :

Different authors deal types of plan differentialy. However, the following are dealt as types of plans in this edition of the book. They are :

- Strategic plans
- Tactical plans
- Operational plans
- Time Horizons of plans: These include:
  - Long-range plans
  - Intermediate-range plans
  - Short-range plans

Strategic Plans :

Strategic plan is a comprehensive, unified and integrated plan of the total organisationa. Strategic plans are formulated and implemented to ahieve strategies. Normally strategic plans are formulated/crafted by top level management of an organisation. Normally strategic plans cover long-range of the time horizons.

1. Introduction

As we have discussed earlier, strategic earlier, strategic management is a process or series of steps. The basic steps of the strategic managment process are (presented in figure 6.2): (a) identifying or defining business mission, purpose and objectives, (b) environmental (including global) analysis to identity present and future opportunities and threats, (c) organisational analysis to assess the strengths and weaknesses of the firm, (d) developing alternative strategies and choosing the best strategy, (e) strategy implementation, and (f) strategic evaluation and control.

2. Steps of Strategic Management Process

Now we, look at each of these steps and their places in strategic management system.

Step 1 : Identifying/Defining Business Mission, Purpose and Objectives: Identifying or defining an organisation's existing missin, purpose and objectives is the logical starting point as they lay foundation for strategic management. Every organisation has a mission, purpose and objectives, even if these elements are not consciously designed, written and communicated. These elements relate the organisation with the society and states that it has to achieve for itself and to the society.

Step 2 : Environmental Analysis : Environmental factors — both internal environment and external environment — are analysed to: (i) identify changes in the environment, (ii) identify present and future threats and opportunities, and (iii) assess critically its own strengths and weaknesses. Organisational environment encompass all factors both inside and outside the organisation that can influence the organisation positively and negatively. Environmental factors may help in building a sustainable competitive advantage. Exhibit 3.2 depicts some environmental factors to monitor for strategic management.

Managers must understant the purpose of environmental analysis and recognise the multiple organisational environments in which they operate.

Step 3 : Revise Organisational Direction: A thorough analysis of organisation's environment pinpoints its strength, weakness, opportunities and threats (SWOT). This can often help management to reaffirm or revise its organisational direction.

Step 4 : Strategic Alternative and Choice: Many alternative strategies are formulated based on possible options and in the light of organisational analysis and environmental appraisal. Alternative strategies will be ranked based on the SWOT analysis. The best strategy out of the alternatives will be chosen.

The steps from identification of business mission, pupose and objectives of alternative strategies and choice can be grouped into the broad step of strategy formulation.

Step 5 : Strategy Implementation: The fifth step of strategic management process is the implementation of strategy. The logically developed strategy is to be put into action. The organisation can not reap the benefits of strategic management, unless the strategy is effectively implemented.

The managers should have clear vision and idea about the competitor's strategy, organisation's culture, handling change, skills of the managers-in-charge of implementation and the like. The progress from the stage of identification of business mission, purpose and objectives to the stage of achieving desired performance must overcome many obstacles. Eight sources of frequent breakdowns that can hinder a manager's navigation are presented in Exhibit 6.2

Step 6 : Strategic Evaluation and Control: The final step of strategic management process is strategic evaluation and control. In focuses on monitoring and evaluating the strategic management process in order to improve it and ensure that it functions properly. The managers must understand the process of strategic control and the role of strategic audit to perform the task of control successfully.

Exhibit 3.1: Some Environmental Factors to Monitor for Strategic Management

Interanl Envrionment

Organisational Characteristics

— Quality of Products
— Discretionary Cash Flow/Gross Capital Investment
— Workforce Commitment
— Workforce Skills and Efficiency
— New Product Development Product Strengths

Markets and Consumer Behaviour

— Market Segmentation
— Market Size
— New Market Development
— Buyer Loyalty

Supplier

— Major changes in availability of price of raw material/supply position.
— Technological and emergence of new types of raw materials.

Industry Structure

— Rate of Technological Change in Products or Processes
— Degree of Product Differentation
— Industries Price/Cost Structure
— Economic of Sale
— New Product Development

Social and Economic

— GNP Trend
— Interest Rates
— Energy Availability
— Cultural Factors

Global Structure

— Emerging Global Competitors
— Technological Innovatives Obso lescene
— Changes in economic policies of Various Governments.
— Emerging foreign markets.

Government and Political

— Government established and legally enforceable regulations.
— Changes in political system
— Market economies.

Exhibit 3.2: Potential Breakdown between Planning and Implementation

1. A customer focus does not drive the planning process.
2. Planners do not organise their information to support action by those who implement the plans.
3. The strategic planning process fails to invite input from those who will implement the plan.

4. Plans are fragmented, piecemeal or insufficient.
5. The organisation does not encourage risk-takers or champions.
6. Those responsible for implemention lack the skills they need to carry out their roles.
7. The organisation lacks an adequate system for measuring the results of implementation efforts.
8. The organisation does not adequately recognise or reinforce the accomplishments and victories of its implementation "heroes".

(**Source:** William Sandy, "Avoid the Breakdowns between Planning and Implementation," Journal of Business Strategy, September-October 1991, p. 30.)

Tactical Plans :

Tactical plans are a set of procedures for translating broad strategic goals and plans into specific plans and goals that are relevant to distinct portion of the organisation like market share, retention of human resources and cost of procuring finance. Thus, tactical plans aim at achieving tactical goals and implement a particular segment of the company's plan. Tactical plans provide detailed actions based on the strategy for a particular department or unit. These plans cover shorter time horizons compared to strategic and long-range plans. Middle level managers mostly deal with the tactical plans.

Operational Plans :

Operational plans are normally designed by the lower level managers based on the tactical plans. Operational plans are courses of action that are to be carried out in day to day activities. Tactical plans indicate day to day and detailed actions to be carried out at departmental or unit level. Operational plans are normally based on strategic plans, intermediate plans, internal environment of the organisation, and ground realities.

Time-Horizons of Plans :

Organisational plans are formulated based on time frame viz., long-range plans, intermediate plans and short-range plans.

Long-range Plan: Long range plans normally deal with strategic plans covering 2 years to 10 years above. Multinational companies (MNCs) and large domestic companies formulate long rage plans over 20 years. In fact, software companies formulate long range plans just for one year, whereas steel and machinery industries view 20 years and above as long range. Thus, the timen horizon of the long range to which it belongs.

The basic question in considering any sort of long-range planning is: Why should a firm attempt to look into the future? These are three basic reasons: (i) The first reason for looking into the future in a systematic way to understand the future implications of present decisions, (ii) The second reason for looking into the future in a systemic way is in a sense the oberve of the first. As well as considering events, (iii) The third reason for looking into the future in a systemactic way is to provide such motivation and such a mechanism.

Intermediate Term Plans :

Intermediate term plans mostly deal with tatical plans normally covering one to two years. Intermediate plans deal with specific aspects of long-term plans. Intermediate plans ensure significance when the long term environment is unclear and is critical to scan and assess. Thus, managers, particularly at middle level follow the intermediate plans during the periods of uncertainty. However, intermediate plans focus on a particular aspect of long-term plan.

Short-term Plans :

Short-term plans normally cover the time horizon upto one year. In fact, it would be upto one month of time horizon for software industry. Thus, the time horizon may vary from industry to industry. Short-term plans normally deals with operational plans and acts as guidelines for lower level managers in their day to day activities.

Normally short-term plans are based on intermediate plans and flexible in order to react to the environmental changes and ground realities. Thus, short-term plans are both action plans and reaction plans. They are action plans because, they are on long and intermediate/medium term plans and are basically action-oriented. They are also reaction plans because they are modified based on environmental shifts, changes in management shifts and other ground realities. Thus, they react to the changes.

Now we shall discuss the advantages and limitations of planning.

Purpose of Planning :

The purpose of planning is to offset uncertainty and changes to focus attention on objectives, to make operations as economical as possible, to facilitate control. to help in coordination and to increase organisational effectiveness.

Having studied various aspects of planning, now we study the process of planning.

3.6 Summary

Planning is a continuous process. Planning is an organisations plan for the total business or any part of the business including the departments or any part of it. For example, organisations plan for diversification or introduction of a new product, entry into a foreign market, introduction of new technology etc.

The steps in planning include:

(i) Being Aware of Opportunities and Strengths: Business firms analyse both internal environmental and external environment. Analysis of the internal envrionment reveals organisation's strength and weaknesses. Analysis of an external environment includes the factors which are characterised as technological, economic, political, international and natural. Analysis of these factors reveal the opportunities offered by the external environment and threats posed by the external environment. Thus the business firms should be aware of the opportunities and strengths. For example, increase in middle income group is an opportunity for consumer goods industry. Business firms can plan to match the organisation's strength with the environmental opportunities, thus knowing the opportunities and strengths is the first step of planning.

(ii) Establishing Objectives and Goals: Business firms have to formulate objectives. Objectives are the ends towards which activity is aimed. They also represent ends towards which organising, staffing, directing and controlling are aimed at. The organisations formulate objectives not only for the entire entreprise but also for each dapartment, unit and sub-unit. The deparmental objectives are related to the enterprise objectives and strategically contribute to achieve them.

Objectives provide direction to the organisational plans. Organisational objectives control the departmental objectives and the sut units' objectives. Managers and subordinates formulate the objectives in collaboration by exchanging their ideas and views.

(iii) Developing Premises: The next step is getting acceptance from the employees regarding the planning premises like forecast, policies etc. Managers also get the acceptance of others regarding the assumption of the environment. All the managers involved in planning should have a common understanding about the planning premises. Forecast is an important planning premise. Forecasting premises include:

- What will be the population?
- What new markets will emerge?
- What will be the new products?
- What will be the supply of the competions?
- What will be the new technologies?
- What will be the future prices?
- What will be the salary levels of employees?
- What will be the new trends in financial markets? and
- What political factors will affect the business?

These premises are more important, critical and strategic for formulating and finalising plans.

(iv) Determining Alternative Courses: The managers have to develop alternative courses. There would be several ways to achieve the predetermined objectives. The objective of profit maximisation can be achieved throuh the following alternative courses.

- through forward linkage of the business
- through backward linkage of the business
- through expansion of the capacity
- through diversification
- through joind ventures and
- through mergers and acquisitions.

Thus, managers have to develop alternative courses.

(v) Evaluating Alternative Courses: Managers have to evaluate the alternative course. Each alternative course has to be analysed in terms of its strengths and weaknesses. In addition, each alternative should also be analysed in terms of the opportunities for implementation of the course of actiona nd the threats or challenges posed by the environment in implementing the course of action. Thus, each alternative course of action has to be evaluated in terms of strength, weakness, opportunity and threat (SWOT) analysis.

(vi) Selecting a Course: After evaluating the alternative courses based on the SWOT analysis, a manager has to rank them based on relative strengths and opportunities of each alternative. The alternative with highest strengths and opportunities and with the lowest threats and weakneses would be ranked as number one while the last rank would be assigned to the altnernative course with relatively lowest strengths and opportunities and highest threats and weaknesses. Then the manager selects the alternative for which rank number one is assigned.

(vii) Formulating Derivative Plans: Managers have to prepare derivative plans after finalising the main and the basic plan. These plans are essential to support and achieve the basic plan.

(viii) Budgetting: The final step is converting the plans and derivative plans into budgets. The budgets provide clear direction in numerical terms. They also provide clear programmes to be achieved. These budgets include capital budgets, financial budgets, material budgets, production budgets, sales budgets, human resource etc.

3.7 Questions for Exercise

1. What is planning?
2. Define the term planning?
3. What is the difference between planning and forecasting?
4. What are the approaches to planning?
5. Why should business firms plan?
6. What are the types of plans?
7. What are the time horizons of plans?
8. What are the strategic plan, tactical plan and operational plans?
9. What are the steps of planning in a dynamic environment?

3.8 Suggested Readings

1. Shailendra Kumar Chaturvedi: Managing Organisation, HPH, New Delhi, 2015
2. Dr. P. Subba Rao: Management and Organisational Behaviour, HPH, New Delhi, 2015

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